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# International Fur Trade

Trends, Challenges, Prospects

Helsinki Metropolia University of Applied Sciences  
Bachelor of Business Administration

International Business and Logistics

Thesis

18 March 2013

Author Title	Andrey Kolokolnikov International Fur Trade: Trends, Challenges, Prospects
Number of Pages Date	52 pages + 2 appendices 18 March 2013
Degree	Bachelor of Business Administration
Degree Programme	International Business and Logistics
Specialisation option	International Business and Logistics
Instructor	Kevin McIntire, Lecturer
<p>During the past ten years, international fur trade has been on an upturn – markets, sales volumes and prices have been growing drastically. Certification and labelling programs, animal welfare projects, ever-changing fashion and well thought-through marketing strategies targeting younger generation consumers all served as key factors in the fur industry recovery after the difficult 90's, when ethical aspects of fur farming emphasized by PETA influenced public opinion. Emerging markets of the developing countries such as China and Russia are the main consumers of luxury goods, which do very well in spite of the financial crisis ravaging global markets.</p> <p>Nevertheless, future prospects of the fur industry are not very clear. The market is volatile and difficult to forecast, ethical disputes are not over and new regulations may be imposed. In this thesis, the major trends, challenges and future prospects of the international fur trade industry are analyzed in order to find out whether current the upturn is of a temporary nature or if further sales growth and expansion to the new markets is likely.</p>	
Keywords	Fur trade, international, trend, ethics, China, fox, mink, luxury, PESTLE

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## 1 Introduction

Since the very dawn of mankind fur has been a commodity of value. Men have hunted animals to feed and clothe themselves. Fur pelts served as money in ancient international trade and motivated traders to explore unknown lands, driving progress and civilization. As technology developed fur evolved from a life-sustaining necessity into a luxury product.

The fur industry experienced difficulties in the 1990's due to increased social awareness of ethical aspects of trapping or breeding animals for fur. Nevertheless, the fur trade has been revived thanks to strong demand from emerging nations such as China. According to the International Fur Trade Federation (IFTF) web site news section, global fur sales totalled more than \$13 billion in 2009, which is an increase of over 58% compared to the end of the 1990's (IFTF, 2011a).

The research question of this thesis is to explore the international fur trade and its trends, challenges and prospects. The researcher's primary task is to define the future prospects of the industry through detailed analysis of the market, ethical, legislative and fashion issues as well as the socio-economic impact of the fur trade and find out whether the current upturn is of a temporary nature or if further sales growth and expansion to the new markets is likely.

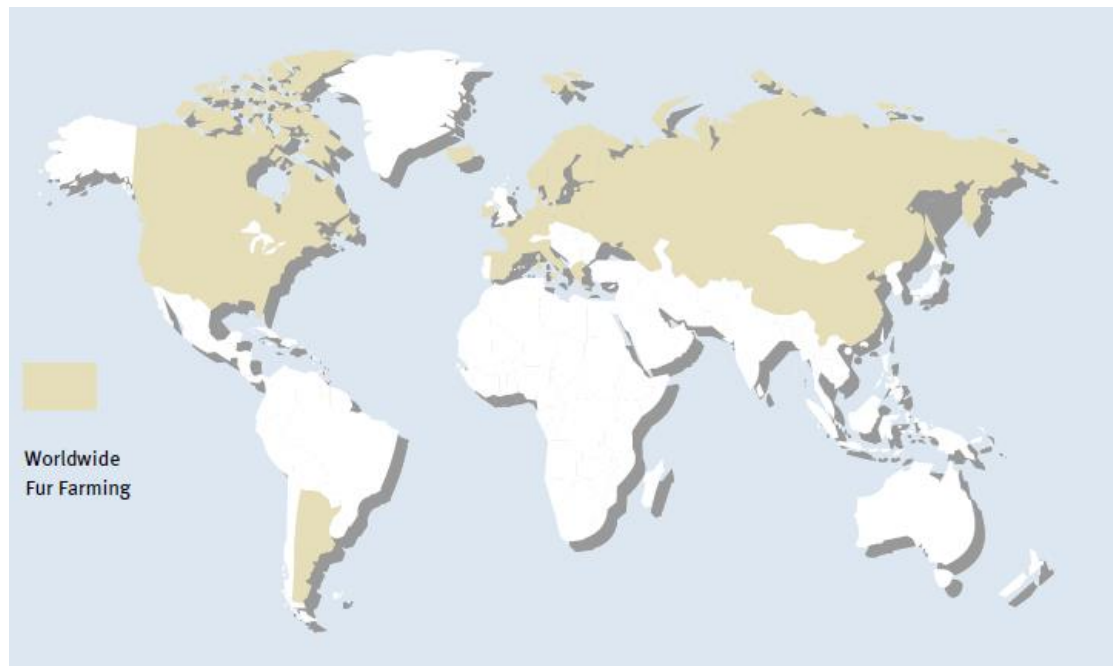
Fur trade is a truly international business area involving tens of stakeholders in the production process before final outcome in the shape of fur coats, hats and other items hit shelves of the retail stores (*see Figures 1 and 2*). As International Fur Trade Federation (IFTF) reports, "over 1 million people are employed full-time in the fur trade worldwide," "fur sales worldwide totalled some US\$ 11.7 billion in 2003/04" and "nearly 117,000 enterprises exist worldwide - retailers, dressers, brokers, etc" (IFTF, 2011b).

Ilse Skov (2005) states that from the beginning of 2000s, the market for fur has grown by almost 10 percent annually, significantly more than other luxury items. While in the 1980s fewer than 50 fashion designers included fur in their ready-to-wear collections,

in the winter 2003–4 the number was over 400 (Skov, 2005).

### Worldwide fur farming

(Figure 1)



*Figure 1 shows countries where fur farming is practised. Most of them are located in the northern hemisphere and have deep historical roots of fur trade and wearing.*

IFTF (International Fur Trade Federation) website, *The Socio-Economic impact of International Fur Farming*, [www.iftf.com](http://www.iftf.com) (accessed 29 October 2011)

Producing over 12 million mink skins, fur farming was worth Euro 514 million to Danish farmers in 2002, making it the country's third largest agricultural export product after bacon and cheese. In Finland, where over 2 million foxes were produced in 2002, the annual value of fur production at Euro 250 million is greater than that of beef. Fur farming is also important in the Netherlands where 3 million skins were produced in 2002, and in some of the Central and Eastern European countries – Latvia, Poland, Lithuania and Estonia. In Poland, the production figures for mink and fox skins in 2002 were 600,000 and 260,000 respectively (IFTF, 2011c).

Fur farming also allows farming to remain economically viable in rural areas where climatic conditions limit the production options available (*see Figure 1*). In Finland, an estimated 50% of fur farmers rely exclusively on fur farming for their incomes. Even where climatic limitations are not an issue, other factors can limit the alternative possibilities open to farmers, e.g. quotas for products such as beef, milk or environmental and planning restrictions (IFTF, 2011c).

## From farm to consumer

(Figure 2)

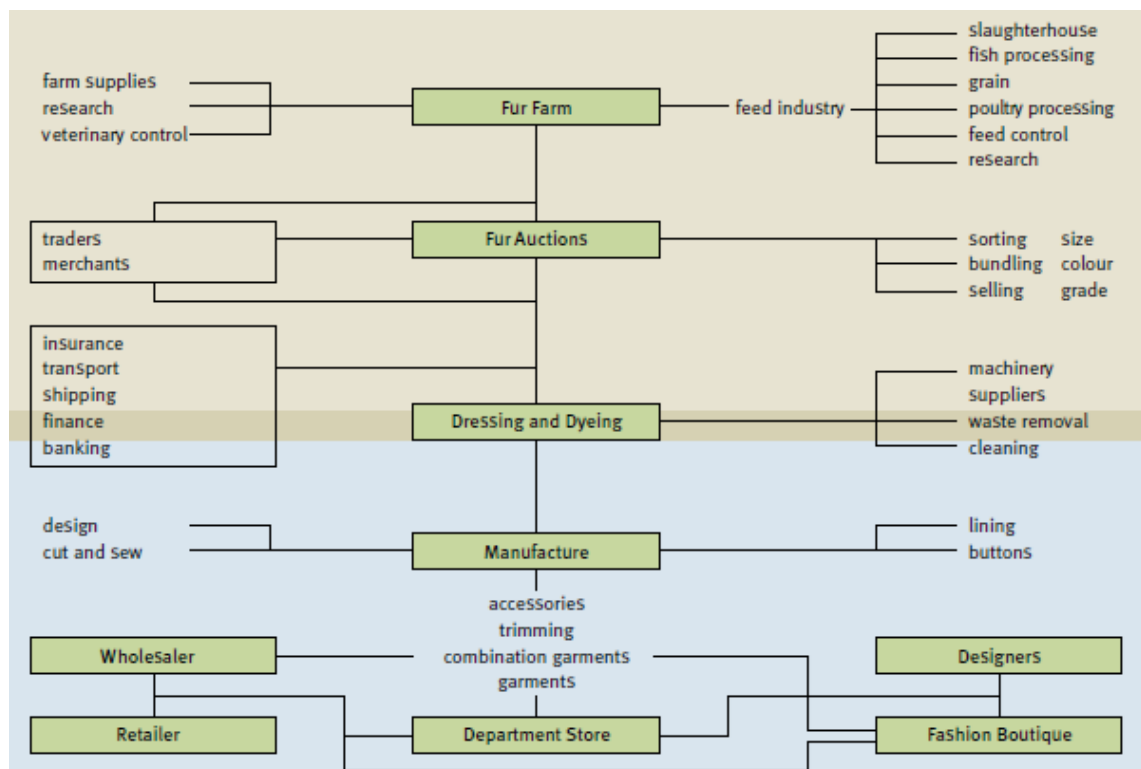


Figure 2 illustrates all steps of the fur items production process and stakeholders involved.

IFTF (International Fur Trade Federation) website, *The Socio-Economic impact of International Fur Farming*, [www.iftf.com](http://www.iftf.com) (accessed 29 October 2011)

Figure 2 illustrates all steps of the fur production process and various stakeholders involved. Unsurprisingly, fur trade plays an important role in many economies worldwide. In Canada, the fur trade contributes Can\$ 800 million to the Canadian economy, employing over 75,000 Canadians in total. In USA, the value of the fur industry at retail level was US\$ 1.8 billion in 2003/4. There are more than 100 manufacturers of fur garments and nearly 1,400 retail outlets of finished fur garments. Hong Kong is the world's largest importer of farmed fur skins and remains the leading exporter of fur garments to the value of more than US\$ 320 million annually. In Russia, the value of the fur trade is over US\$ 2.5 billion, contributing around 0.6% - 0.8% of the turnover of all consumer goods. In the UK, fur brokers are responsible for buying the majority of the world's fur traded at raw or wholesale level, with a turnover of some US\$ 750 million per annum (IFTF, 2011b).

After all, the International Fur Trade is showing very positive dynamics in spite of the ravaging financial crisis. The average price of mink has more than doubled in the past

10 years and rose to \$42 in 2010, with the highest quality selling for \$101. "Fur sales have been more than holding their own, in spite of the recession," says Andy Lenhart, the IFTF's chairman. He credits rising demand from Russia and China, though sales were strong even in Europe and North America (Blumenthal, 2011).

## 2 Literature Review

### 2.1 Current Market Situation

Among the most relevant information sources on the chosen topic, the researcher is considering three major types of sources: organizations' websites, newspaper and journal articles, and several statistics providers, such as World Bank, IMF, Statistics Finland and customs statistics.

The organizations' websites proven to be worthwhile and accurate sources of information on various aspects of fur trade are International Fur Trade Federation (IFTF), European Fur Breeders' Association (EFBA), trading houses, such as Saga Furs group, Toronto, Seattle and Copenhagen Fur Auctions, Moscow trade show and other enterprises of the industry.

Another source of information, covering different points of view on trends of the industry are newspaper, journal and magazine articles, e.g. theme publications such as *INFUR* magazine, issued by IFTF or articles by Walker (2011) "*The Fur and The Fury*" in *Independent*, Blumenthal (2011) "*Bring back that mink!*" in *Barron's* and Stephens (2004) "*So have the protesters lost their battle to kill off the fur trade?*" in *Evening Standard*, etc., which provide insight into the most recent updates and changes in the market, fashion and public opinions at certain time periods.

First established in 1949, the International Fur Trade Federation (IFTF) is a federation of 38 national fur trade associations and organizations from 31 countries. Through its work and the activities of its members, IFTF seeks to protect fur trade interests and to promote innovation, high standards and a positive factual image of fur and the fur industry internationally (IFTF, 2011b).

It is important to take into consideration that IFTF represents interests of the fur farmers; trappers; furriers; auction houses; merchants; brokers; dressers and dyers; manufacturers; and retailers and therefore, in spite of being a very good source of information on the topic it can be relatively subjective.



The news section of the IFTF website contains the latest updates, articles from the *INFUR* magazine and interviews on number of adjacent areas of the fur industry from current market situation and pelt prices to fashion trends.

### 2.1.1 Fur as a Luxury

IFTF CEO Mark Oaten shares his insights on the current economic climate and the impact on the luxury industry; in his opinion, “although there is a global recession it would appear that luxury goods remain strong, not just fur but many high value products seem to do well during a recession” and “small high quality business especially in the fur industry are and will do very well” (IFTF 2011d).

When referring to fur as a luxury product it is worthwhile taking a look at the definition of luxury as such. Luxury can be defined in many ways and perceived differently depending on location, culture and even on one's background. According to Collins English Dictionary, luxury can be defined as being “indulgence and enjoyment of rich, comfortable, and sumptuous living; something that is considered an indulgence and not a necessity.”

Fur has not always been solely a luxury good. In order to track down the changing role of fur in human lives it is worth taking a look at Maslow's Hierarchy of Needs (*Illustration 1*). According to Abraham Maslow, each of us is motivated by needs. The hierarchy states that we must satisfy each need in turn, starting with the first, which deals with the most obvious needs for survival itself.

Only when the lower order needs of physical and emotional well-being are satisfied we are concerned with the higher order needs of influence and personal development. Conversely, if the things that satisfy our lower order needs are swept away, we are no longer concerned about the maintenance of our higher order needs (Maslow, 1987).

Thousands of years ago fur served as a life-sustaining commodity, fulfilling the very basic physiological need for warmth. Gradually, alongside its physiological function, high quality or rare fur has turned into an item of prestige, status and self-esteem, serving to fulfill the fourth level of Maslow Hierarchy – the esteem needs.

## Maslow's hierarchy of needs

## (Illustration 1)



*Nowadays the 1<sup>st</sup> level need of warmth can be fulfilled by means other than fur.*

Based on Maslow, Abraham; Frager, Robert "Motivation and Personality" Harper and Row 1987

There are many ways other than fur to keep us warm these days: various heating systems, synthetic materials, feather jackets, etc. Although many people are still wearing fur for warmth, especially in such northern countries with long fur wearing traditions like Russia, this good has become more fashion oriented and mainly aiming at the satisfaction of esteem needs.

Kiessling, Balekjian and Oehmichen (2009) suggest that BRIC countries continue to establish their roles as important economies and remain major consumers of luxury goods. Although traditionally they have been considered developing countries, the BRIC countries currently present the highest growth in the number of high net worth individuals. Kiessling (2009) consider the only factor that may impede these economies from higher growth is the rising level of inflation rates which seem to be more pronounced in such nations. India, China and Brazil led the high net worth individual population at 22.7, 20.3 and 19.1 per cent, respectively. Russia was also in the top ranks of the High Net Worth Individual population table with a 14.4 per cent growth in 2007.

China is reportedly now the world's third largest consumer of luxury goods, after Japan and the United States, accounting for 12 per cent of global sales, according to Goldman Sachs, and could overtake both the United States and Japan by 2015 (Kiessling, Balekjian and Oehmichen, 2009).

Besides the fact that "fur is on trend at the moment" and nonetheless fashion changes all the time, Oaten is "sure that in the next ten years whilst the use of fur will increase, the trends will change and perhaps we might see a growth in fur on household products for example" (IFTF 2011d).

It seems that the fur industry is able to do well, grow sales and plan market expansion in spite of the current global economy downturn, especially taking into account another article IFTF (2011a), which states that "the average price of mink has seen a 112% rise over the last 10 years" and the "price increases are being driven by a continuing rise in global retail demand, with over 400 internationally recognized designers, including John Galliano and Jean Paul Gaultier, incorporating fur in their designs this season."

### 2.1.2 Price Elasticity of Luxury Goods

As can be seen from paragraph above, fur as a luxury good has not been affected much by the global recession. Rather, in spite of it, the trade is prospering as never before. General relationships between the luxury and its demand, supply and price are analyzed below.

Elasticity is a measure of the responsiveness of quantity demanded or quantity supplied to a change in one of its determinants (Mankiw, 2011). Therefore the *price elasticity of demand (supply)* is a measure of how much the quantity demanded (supplied) of a good responds to a change in the price of that good, computed as the percentage change in quantity demanded (supplied) divided by the percentage change in price:

$$\text{Price elasticity of demand} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

Mankiw (2011) considers demand (supply) to be elastic if the quantity demanded responds substantially to changes in the price, and accordingly, demand (supply) is said to be inelastic if the quantity demanded responds only slightly to changes in the price.

Necessities tend to have a more inelastic demand curve, whereas *luxury goods and services tend to be more elastic*. The logic is simple – when price e.g. for healthcare services or basic food like bread, milk or potato increases people will still have to eat and take care of health issues, not being able to completely do without the necessities. On the other hand, if price of a mink coat or diamond jewelry rises up, demand would decrease because these are luxury goods people could do without or find cheaper substitutes like feather jacket or bijouterie.

Nevertheless, there are certain cases where the law of demand gets violated and luxury goods are not always elastic. Sometimes if price rises, demand also rises and vice versa. This happens in case of the goods of status, i.e. so called *Veblen goods*, which are luxury goods promoting social prestige of the holder (Mankiw, 2011). Precious stones, exclusive cars or watches, rare white sable furs are the goods of status to name few.

Similar situation occurs at the high end of the luxury market. Let us take a look at the segment of luxuries, which are not quite status goods, but already not mass luxury either. For instance, business class cars or luxurious real estate are affordable to few who would probably still buy the item in spite of the price increase, what makes the demand for luxury goods on this segment *inelastic*.

Fur as a luxury good is able to fit all three described above segments thanks to high diversity of supply from cheap and affordable (mutton, muskrat, dog), lower-middle class (Chinese mink and fox, Russian mink), upper-middle class (Scandinavian and American mink, fox, Russian sable) to premium-priced upper class products (top lots, rare and superior quality furs).

Taking into consideration that the past five year's mink and fox fur supply was chasing

all growing demand, let us assume that the supply was nearly equal to the demand and compute the price elasticity of demand and supply for mink and fox fur from 2008 to 2010 using the formula mentioned earlier and indicators from figures 17, 18 and 19 summarized in the *Table 1*.

**Mink and fox supply and price in 2008 and 2010** (Table 1)

Type of fur	2008	2010	Percentage Change, %	Elasticity
Price, EUR				
Fox	45.3	122.4	170.20	
Mink	20.4	42.4	107.84	
Supply, million skins				
Fox	4.3	4	-6.98	-0.04
Mink	51.1	53.1	3.91	0.04

*Based on Saga Furs materials*

$$\text{Price elasticity of FOX demand (supply)} = \frac{\frac{4}{4.3} * 100\% - 100\%}{\frac{122.4}{45.3} * 100\% - 100\%} = -\frac{6.98}{170.2} = -0.04$$

$$\text{Price elasticity of MINK demand (supply)} = \frac{\frac{53.1}{51.1} * 100\% - 100\%}{\frac{42.4}{20.4} * 100\% - 100\%} = \frac{3.91}{107.84} = 0.04$$

As the calculations reveal, the price elasticity of demand and supply for *fox* (since we assumed the demand and supply to be equal) is *very inelastic* with the value of -0.04. This means that the quantity demanded responds only very slightly to changes in the price; meanwhile on the mink market the situation is typical for status goods. Price elasticity of demand and supply for mink has positive value of 0.04 which is more common for Veblen goods. Therefore demand and supply for *mink* aside from being *very inelastic* are violating law of demand – mink price has been growing together with demand and supply for this kind of fur.

Worldwide demand and supply for fur is inelastic due to the general trend in the industry, meanwhile on certain markets affected by recession the situation could be different. For instance frost fox and silver fox demand on Russian market has dropped in 2008-2009 and since Russia is the major consumer of frost fox skins, the market segment has reacted appropriately. On the other hand, amplifying demand from China

was able not only compensate the decrease, but in many aspects caused the present inelasticity of fur demand.

### 2.1.3 Ethics, Sustainability and Socio-Economic Impact

Both press releases and most of IFTF materials reflect objective numbers and trends, but none covers the ethical side of the question, which is often raised and thoroughly discussed in many newspaper publications as will be seen later.

*"The Socio-Economic impact of International Fur Farming"* brochure, issued by IFTF (2011c) underlines the importance of the socio-economic impact of the fur industry and promotes a positive image of fur as "a natural product, based on the sustainable use of renewable resources." According to the facts listed in the brochure, fur trade not only "helps to support the livelihoods and cultures of people living in close harmony with the land," and plays important role in agriculture sector and economies of many countries, as mentioned above, but "the welfare of wild or farmed fur species is of paramount interest to the fur sector."

Fur farming "is well regulated under international, national or regional laws and guidelines." Origin Assured label (*see Figure 3*) introduced by IFTF confirms that a fur garment or product carrying this mark is produced in a country where strict welfare regulations or standards governing fur production are in force. After all, in our world where sustainability and going green trend becomes more and more concrete, fur farming is "a valuable link in the food and recycling chain, providing an efficient use of 647,000 tonnes of animal by-products each year from the fishing and meat industries in the EU alone" (IFTF, 2011c).

The Origin Assured label as well as re-branding fur products for younger consumers played an important role in building a new image for fur and its comeback on the market. "Freedom of choice" approach promoted by fur retailers and animal welfare programs have become the key factors of the industry recovery in recent years.

### Origin Assured label (Figure 3)



IFTF website, *International Fur Trade Federation brochure*, [www.iftf.com](http://www.iftf.com) (accessed 30 October 2011)

Fur industry has its own ups and downs and professional organizations' materials tend to minimize the negative sides of the fur trade such as electrocution of the fur animals or steel jaw traps usage and overemphasize positive aspects like ones listed above. In order to avoid this imbalance, the more or less independent newspaper and magazine publications should be also considered.

In March 2004 *Evening Standard* published an article by Anastasia Stephens "*So have the protesters lost their battle to kill off the fur trade?*" where Dawn Carr, People for the Ethical Treatment of Animals (PETA) director, expresses her point of view on the fur trade industry. Carr, as many other animal rights activists, is sure that "animals should not be fashion victims" and "in the 21st century, there is no justification for wearing fur", especially "when synthetic fur can so accurately mimic the look and feel of a real animal." Meanwhile, she states that "you don't need to make a living out of killing animals" and admits that "forgoing fur is the easiest" way to promote reduction of animals suffering.

The latter statement explains why the fur industry experienced more difficulties than for example meat or leather producers in the 1990's when the PETA campaign for animal rights was on the rise.

According to the organization's web site, PETA is the largest animal rights organization in the world, with more than 3 million members and supporters.

PETA's mission is focusing its attention on the four areas in which the largest numbers of animals suffer the most intensely for the longest periods of time: on factory farms, in the clothing trade, in laboratories, and in the entertainment industry. PETA works through public education, cruelty investigations, research, animal rescue, legislation, special events, celebrity involvement, and protest campaigns (PETA, 2011).

#### 2.1.4 Fur Industry Recovery

On the other hand, a recent "*The Fur and The Fury*" by Harriet Walker in *Independent* is an objective contemporary fur industry and market trends review covering all parties' opinions, including fashion designers, animal rights groups and industry representatives without polarizing. According to the author, in 2010 "fur sales in the UK came to more than £83 million, an increase of 40 per cent since 2009" (Walker, 2011).

Walker (2011) cites Sue Evans, senior editor at trend forecasting agency WGSN saying that the "fur trade has been very proactive in bringing it back" by introduction of the Origin Assured label and concludes that designers start using fur again. "I've worked with them [fur industry representatives] since the mid-Nineties and the whole objective was to make fur into a fashion item. It was baby steps at first, and now they're advertising in Harpers Bazaar, in Vogue – they're not sure where to place the ads, because everybody will take them now" - adds Evans. Moreover, "out of the five supermodels who appeared in that PETA 'I'd rather go naked...' campaign 17 years ago, only Christy Turlington has held the line. In fact, Naomi Campbell has since fronted an advertising campaign for furrier Dennis Basso."

There is a strong counterargument against wearing artificial fur mentioned in the article. One of the ingredients that go into fake fur is petroleum, "and the 1,000 years it takes for synthetic fibres to biodegrade. In this respect, fur can be seen as a sustainable material – if treated well, it can last indefinitely, and it can be re-made according to changing fashions." Therefore natural fur, unlike artificial one is not only durable, but also biodegradable.

A natural fur garment lasts for many years and can be re-used, re-styled and up-cycled. Natural fur is a renewable resource; wild fur is taken only from abundant



species in accordance with the sustainable use conservation principal. Farmed fur production recycles waste products from dairy meat and fish processing, and farmed fur by-products are often recycled themselves to biofuels and non-chemical fertilizers. Studies show natural fur contributes less than half the risk of climate change than fake fur (IFTF, 2012).

Fur industry enterprises are aware that building the reputation is equal to building their future and therefore, European Fur Breeders' Association (EFBA) has launched the WelFur project – a scientific project on animal welfare. During the period 2004-2009, the EU-funded Welfare Quality project developed general principles and criteria for animal-welfare assessment at farm level: good feeding, good housing, good health and appropriate behaviour. WelFur was EFBA's priority in 2010 and remained the major point of action in 2011. The objective is to introduce a certification program at farm level that will guarantee excellent animal welfare on the European fur-farms (EFBA, 2011).

As mentioned previously, the return of fur is associated with a profound market repositioning of the fur coat. Skov (2005) suggests that the old fur coat with its conservative cut has been replaced by new fur garments that, in accordance with overall clothing trends, are cut closer to the body. Insofar as the old fur coat was a once-in-a-lifetime investment, consumers inevitably demanded a loose and neutral design, lest the coat would appear outdated after a few years or become unusable if, by chance, they gained weight.

Whereas the weight of the old fur coat signified the practical purpose of keeping its owner warm as well as her middle-class solidity, new fur is light; with a minimal number of seams, and without lining or interface, a mink coat now weighs less than 2 kilos. While core consumers used to be women over 50, women in their thirties are now buying fur. Whereas the old fur was associated with the values of middle-class solidity – propriety, elegance, maturity – the new fur is, in accordance with current trends, casual, comfortable and youthful (Skov, 2005).

At the same time, while the fur trade used to be a craft-based industry catering to a niche market, it is now a supplier to the high end of the fashion market. Fur is no

longer sold exclusively in specialized retail outlets but through the boutiques of name designers and exclusive brands. It is estimated that 40 percent of Danish-produced mink is distributed through fashion channels (Skov, 2005).

### 3 Research Plan

Since the international fur trade is such a versatile and multifaceted topic, in order to get the whole picture and answer the research question, the researcher is going to analyze Political, Economic, Social, Technological, Legal and Environmental (PESTLE) factors affecting the fur industry, define the most critical ones and review existing print and online sources to track the dynamics and trends of the past twenty years of the international fur trade on the selected factors. Besides the PESTLE analysis and literature review, the researcher has gathered primary data by conducting interviews with industry representatives to get a clue of the probable direction of the future industry development.

In spite of the abundance of articles and publications on variety of aspects of the research topic, there is a lack of books on the international fur trade. Therefore, in the researcher's opinion an interview with industry representatives was necessary for the successful research completion. In order to get opinions on the industry future prospects and insider's points of view, the researcher has interviewed Saga Furs group employees and fur brokers and traders at the December 2011, March 2012 and June 2012 Saga Furs Fur Actions in Vantaa, Finland. All the interviewees were asked the same set of 7 open ended questions (*see Appendix 1*). The questionnaire design is built on the open ended questions in order to obtain wider array of data regarding every possible aspect involved.

Saga Furs Oyj has also kindly provided detailed information on the market situation, structure and dynamics for the past 10 years as well as sales results by type of skins. On the basis of this data, the researcher has performed statistical analysis of the key fur trade factors such as Prices, Production and Sales Volumes.

Despite the current fur trade upturn, future prospects of the fur industry are not clear. The market is volatile and difficult to forecast, fashion is changeable and new legislative regulations may be imposed. All these problems shape up the research question: *What are future prospects of the international fur trade?*

## **4 Analysis**

### **4.1 PESTLE factors**

There are many factors in the macro-environment that will affect the decisions of the managers of any organisation. Tax changes, new laws, trade barriers, demographic change and government policy changes are all examples of macro change. To help analyse these factors managers can categorise them using the PESTEL (or PESTLE) model (Gillespie, 2007).

By using the PESTLE framework we can analyse many different factors in a firm's or in our case industry's macro environment. In some cases particular issues may fit in several categories. Gillespie (2007) notes that it is important not to just list PESTEL factors but to think about which factors are most likely to change and which ones will have the greatest impact on them i.e. each firm must identify the key factors in their own environment.

While using PESTLE analysis it is also important to consider the level at which it is applied. Some factors are local, others are national or global. Since the international fur trade is a global matter, as we discussed above, the researcher has concentrated more on the large scale national and global factors rather than local ones, although certain local factors deserve mention as well for the sake of seeing and analyzing the whole picture and its possible future development.

General outlines of the PESTLE factors were shown in the Literature Review section of this thesis. Structuring all the known factors and listing them according to the analysis approach will help defining the most influential and significant ones for further detailed breakdown.

#### **4.1.1 Political**

Political factors refer to government policy such as the degree of intervention in the economy. Political decisions can impact on many vital areas for business such as the

education of the workforce, the health of the nation and the quality of the infrastructure of the economy (Gillespie, 2007).

- Ethics:
  - Fur farming ban in the UK and other countries.
    - Electorate related issues (e.g. Tony Blair and Green party, see 4.2.1 section).
  - Animal wellbeing standards imposed (e.g. Denmark).
    - Legal factors (see 4.1.5 section).
- Strong trade unions of the fur industry:
  - Better employees' wellbeing.
- Export fur trade plays significant role in some countries' economies (e.g. Finland, Denmark).

#### 4.1.2 Economic

Economic factors include interest rates, taxation changes, economic growth, inflation and exchange rates. Apparently, economic change can have a major impact on any industry.

- Socio-economical impact of the fur trade and farming.
  - Fur farming is possible in conditions inappropriate for any other kind of farming.
- China as the major consumer:
  - High dependence of the industry on its economic growth.
- Interconnection with currency fluctuations (EUR, USD, RUR, RMB):
  - GDP growth of China.
  - Oil prices affect Russian demand.
- Competitors and substitute products:
  - Cotton, feather products.
  - Artificial fur.
    - Plastics, oil based products.
- Fashion:
  - Affects demand.

- Export fur trade plays significant role in some countries' economies (e.g. Finland, Denmark).

#### 4.1.3 Social

Changes in social trends can impact on the demand for an industry's products and the availability and willingness of individuals to work (Gillespie, 2007). Demographic situation also includes here.

- Ethics:
  - Public opinion.
  - PETA campaigns.
    - Protests.
    - Activists' farm attacks.
- Luxury market:
  - Developing countries.
    - China.
    - Russia.
- Socio-economical impact of the fur trade and farming.
  - Fur farming is possible in conditions inappropriate for any other kind of farming.
- Repositioning on the market:
  - Younger consumers.
  - New distribution channels – designers.
- Consumer demographics (age, area, income level):
  - China.
  - Russia.
  - Western Europe.
- Fashion
  - Increase/decrease value of certain colors or types of skins.
  - Affects demand.

#### 4.1.4 Technological

New technologies create new products and new processes. Technology can reduce costs, improve quality and lead to innovation. These developments can benefit consumers as well as the organisations providing the products (Gillespie, 2007).

- Barriers to entry on the market:
  - Cost of the equipment for farming– e.g. 3 million EUR for set of new, more spacious, cages.
  - Considerable initial investments for buyers.
  - Brand and established name need for brokers.
- Breeding technology (or why Chinese production did not succeed, see 4.3.2):
  - Quality.
- Dyeing and dressing technologies.
  - Increase/decrease value of certain colors or types of skins.

#### 4.1.5 Legal

*Legal factors* are related to the legal environment in which firms operate. As Gillespie (2007) states, legal changes can affect a firm's costs (e.g. if new systems and procedures have to be developed) and demand (e.g. if the law affects the likelihood of customers buying the good or using the service).

- Ethics:
  - Fur farming ban in the UK and other countries.
  - Jaw traps and hunting bans – for wild fur.
  - Public opinion influenced by PETA affects legislative and political factors.
- Labelling and animal welfare programs:
  - Origin Assured.
  - Certification.
- Strong trade unions of the fur industry.
- Environmental law:
  - Conservation programs.

#### 4.1.6 Environmental

Environmental factors include the weather and climate change. Changes in temperature can impact on many industries including farming, tourism and insurance. With major climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for firms to consider. The growing desire to protect the environment is having an impact on many industries such as the travel and transportation industries to say nothing of the fur trade and the general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities (Gillespie, 2007).

- Global Warming:
  - Warmer winters – less demand for fur garments.
- Ethics
  - Public opinion
  - Animal rights activists' actions –
    - Setting animals free kills them.
- Sustainability:
  - Farming animals recycle sub-products of other industries.
  - Products last indefinitely.
- Possibility of fur farming in conditions inappropriate for any other kind of farming.

#### 4.2 Main Drivers

All the PESTLE factors listed above in section 4.1 are consolidated in Table 2. As we can see from the table, the ethical question is one of the most relevant ones, touching most of the categories. Primary ethics related drivers are marked with green. Another group of primary factors is economy related – it is marked with purple.



PESTLE Factors

(Table 2)

<b><u>P</u></b>	<b><u>E</u></b>	<b><u>S</u></b>	<b><u>I</u></b>	<b><u>L</u></b>	<b><u>E</u></b>
<b><i>Ethics</i></b>	Socio-Economical	<b><i>Ethics</i></b>	Breeding	<b><i>Ethics</i></b>	<b><i>Ethics</i></b>
Trade Unions	<b><i>China</i></b>	<i>PETA</i>	Dressing	<i>Labelling and animal Welfare programs</i>	Global Warming
Export trade interests	<i>Currencies and Oil fluctuations</i>	<i>Luxury Markets</i>	Dyeing	Trade Unions	Sustainability
	<i>Substitutes and Competitors</i>	Socio-Economical	Barriers to entry	Environmental law	Fur farming in inappropriate for other farming conditions
	Fashion	Fashion			
	Export trade interests	Demographics			

Certain factors are included in several categories. For example Socio-Economical impact of the fur trade, which has been discussed in the Literature Review section of this thesis or Fashion, which is not a primary subject of this research. Therefore despite the great number of supplementary factors involved, thorough discussion would take many more pages and researcher has decided to concentrate on the most significant PESTLE factors in the Analysis section. Among the most important drivers affecting the future of the fur industry are:

- Ethics, including:
  - Legal aspects;
  - PETA campaigns;
  - Substitute products;
  - Labeling and welfare programs.
- Main Markets, such as China and Russia and their luxury segments:
  - Fashion;
  - Demographics;
  - Currency and Oil fluctuations;
  - Fur production in China (breeding).

Detailed discussion on these factors with interviewees, additional literature review and analysis of the statistical information on fur market dynamics will form the answer for the research question – *What are future prospects of the international fur trade?*

#### 4.2.1 Ethics

This section is primarily based on the interview with Mr. Jyrki Sura, Project Coordinator at Saga Furs Oyj, (16.2.2012) and includes researcher's comments as well as relevant remarks of other interviewees.

Alongside the Origins Assured labelling initiated by IFTF, Saga Furs has lately launched its own Certification Program – a number of regulations certifying the fur production process aimed to improve the animal welfare and introduce norms, which are stricter than current fur breeding legislation. According to the new program fur breeding is supposed to be ethical and ecologically sustainable. The Certification label will be different from the Origins Assured label, introduced by IFTF. Whereas OA label basically only indicates origins of the products, showing where skin comes from, Saga certification label will ensure that the farm that produced the skin obeyed all the regulations imposed and the animal was kept according to the standards.

On the one hand, the certification system is going to increase the production cost and cut profits, which is why many farmers would not be very keen on introducing it on their farms. On the other hand, carefully bred, well-kept animals have a lot better quality of fur. Fur is a commercial good; therefore ethics will pay off in the long run. In fact, fox farmers do not have much choice as to whether to accept the Certification program or not. Saga Furs is the major player on the world fox fur market and farmers will have to either sell their skins through the auction house and put up with the certification program or sell their products directly to the customers, which is a feasible, but quite problematic option.

Even though living standards for the fur farm animals are 3 times higher than people usually think, if we do not impose these regulations ourselves, governments will do that, and those will be rules impossible to obey. Next season (2012 – 2013) Saga Furs will sell only certified raccoons, and the season after next (2013 – 2014) all foxes sent in by farmers must be certified (Sura, 2012).

Unfortunately, on the mink market, Saga Furs does not hold such a strong position as with foxes and cannot insist on the total certification. 60% of mink skins are certified and as the certification is not the only choice for the farmers, if company does not take skins without label, producers can always send their fur to the competing auction houses, e.g. Copenhagen Fur Auction or NAFA.

Surprisingly enough, in the end of 80s - beginning of 90's, when PETA campaigns were on the rise, fur prices were on the rise as well. Ethical question will be discussed more and more and the fur industry is open for the dialogue. Fur is a luxury good – if the majority of consumers have bought it, nobody would have protested against it. Social psychology affects any market and when it comes to the fur market, it has even stronger influence. Farmed animals are usually domestic, e.g. pigs, but blue fox is domesticated, too – if one sets it free from a cage it will be back, waiting for food when the animal gets hungry. Eco-terrorists - animal rights activists, opening cages at fur farms provoke real ecological disasters when setting minks free. These days European farmers mainly breed American type mink species. Mink is a predator and kills everything in fauna around the farm without even purpose of fulfilling hunger. Eventually, practically all escaped animals die in the wild nature as well as under automobile wheels.

Saga is the most important fur brand; nevertheless, *as another interviewee, Area Manager - Russia at Saga Furs Oyj, Mr. Dmitri Larionov noted during personal interview*, PETA's marketing department employs several times more people than Saga Furs' one. It makes responding to the ethical struggle and fur promotion even more challenging for the fur industry. PETA's activities worldwide are very well funded and probably it is more about hidden competition, rather than genuine care for animal wellbeing.

Skov (2005) analyzes the logic of animal rights protesters and concludes that it was the association with middle-aged, middle-class femininity – as much as treatment of animals – that marked fur out as a prime target of animal rights criticism. This can be dated to the so-called radicalization of anti-fur campaigns in the early 1980s, which shifted the focus from actual conditions of production to questioning the morality of fur consumers.

Thus, as anti-fur slogans would have it, the beauty of the fur coat was seen to conceal the ugliness of its wearer, just as its warmth was perceived to belie her coldness and cruelty. The recent market repositioning of fur has taken place in response to the anti-fur sentiment and the slump in demand that it caused (Skov, 2005).

*Mr. Claus i J. Olsen, fur broker and farming expert from Denmark* explained that governments just cannot close eyes if someone complains about fur farming and Danish government is not an exception – quite regularly they issue new standards for animal keeping, this time new cages are supposed to be more spacious than present ones. Changing all cages in one farm costs about 3 million Euros and if farmers do not care for the animal wellbeing themselves, governmental care will destroy fur farming in Denmark.

Sometimes new regulations and bans can be result of the political struggle over electorate votes – for instance Tony Blair banned fur farming in the UK to get voices from the Greens although translated his promise into reality on his last weeks in power.

#### 4.2.1.1 Legal

Ethical arguments between PETA and IFTF are still unresolved and the battle over public opinion is not over at all. Moreover, legislative aspects of the fur trade in some countries can be rather unpredictable, for example, in the fall 2011 West Hollywood City Council unexpectedly proposed a fur ban, which met a controversial reaction in society. Online polls conducted in the area show that most voters (78%) are against the ban. Local retailers have proposed a labeling program coupled with consumer information so that consumers can make their own purchasing decisions. But so far, the council has refused to listen and is facing a strong public outcry against the ban and a barrage of criticism (IFTF 2011e).

### 4.3 Major Markets

There are many types of fur - it can be wild or farmed, skins of various animals are sold at international fur auctions: karakul, chinchilla, mole, lynx, marten, sable and

many more. Researcher has decided to concentrate on the two primary fur products sold worldwide – farmed mink and fox.

Saga Furs Oyj has kindly provided graphical and statistical information on mink and fox sales, production and prices. Latter will be discussed in the Statistics section of this thesis.

As can be seen from the *Figures 4 & 5*, market structure has been changing over the past twenty years. South-Korean, Japanese (*Fox*) and Italian (*Mink*) shares have almost faded away in comparison to mid-90's partly due to fashion change, partly because of growing share of China. European market shrank due to ethical issues, fashion and warmer winters. Nonetheless, the growth of China both on the mink and fox markets can be easily tracked down.

**Mink Sales worldwide, 1992 – 2011**

**(Figure 4)**



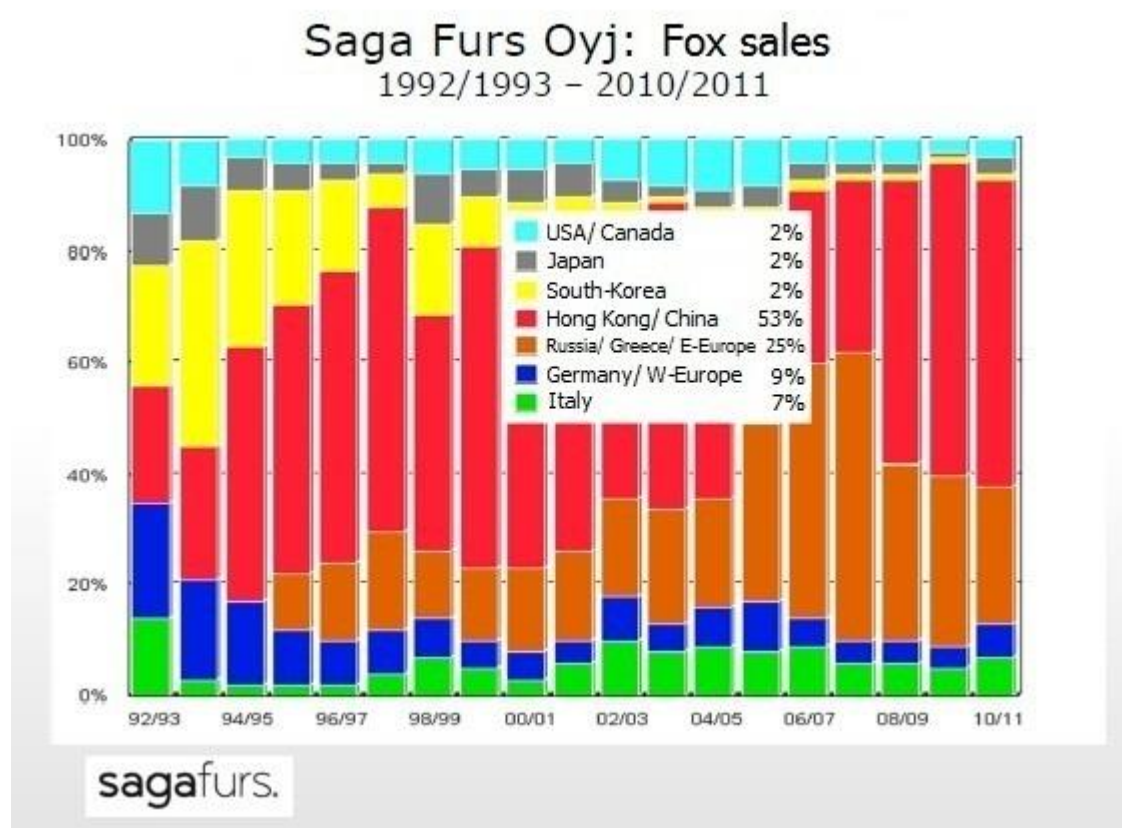
*As for 2011 China and Russia are the major mink buyers on the market.*

*Saga Furs materials*

After the Soviet Union collapse, the Russian fur industry could not serve its domestic market anymore. Newly established free market economy and long fur wearing traditions of the country created strong demand for fur garments. Starting from mid-90's Russian fur consumption has taken a considerable share of total sales. The world financial crisis badly affected Russian and European economies and in 2008 fox sales in Russia and Eastern Europe dropped (*Figure 5*); hardly touched by recession China became the number one fur consumer in the world both for mink and fox, 55 and 53 per cent of sales volume respectively.

**Fox Sales worldwide, 1992 – 2011**

**(Figure 5)**



*As for 2011 China and Russia are the major mink buyers on the market.*

*Saga Furs materials*

At the moment China, including Hong-Kong and Russia together with Eastern Europe account almost 80 percent of the mink and fox market. A closer look at these major markets will help in forecasting future development prospects of the fur industry.

#### 4.3.1 World Luxury Market

High-end luxury goods sales rose by 8% in 2011 to EUR 185 billion (USD 274 billion, or about 0.5% of global GDP) and are forecast to grow by 5-6% in 2012-13, according to a study published by Bain & Company (Oxford Analytica, 2011).

As the highlights of the report defining the main traits of the contemporary luxury market Oxford Analytica (2011) states that the biggest buyers of luxury goods and services are the United States, Europe, Japan and China. While sales in the United States and Europe are solid, those in Japan are declining. China, Brazil, the Middle East and Russia are the strongest growth prospects, while India is seen as a challenging market. The mass-luxury market could grow from close to 20% of global GDP today to 30% by 2020. The high-end luxury goods market could double to about 1% of GDP by 2020.

As consumers' real incomes and wealth rise, discretionary spending - the "mass luxury" market, which includes sales of cars, household furnishings and electronics, travel and tourism, luxury foods and fashion goods - gradually becomes an ever-larger share of consumption. Thus, while demand for consumer basics is reaching a plateau in the developed world, luxury goods and services are a key driver of consumer growth. For example, for the United States, the mass luxury market has probably doubled its share of overall consumption over the last 50 years and may now account for as much as 35-40% of US household consumer spending (Oxford Analytica, 2011).

Referring to the Bain & Company study, Oxford Analytica (2011) notes that in 2010, total consumer spending accounted for around 36-37 trillion dollars out of a global GDP of 62 trillion dollars:

*Developed world.* The richer countries consumed about 26-27 trillion dollars in total, of which approximately 9-10 trillion dollars may be defined as discretionary spending (about 30% of developed world GDP).

*Developing countries.* In the rest of the world, consumption was worth around 9-10 trillion dollars and discretionary spending probably only 2 trillion dollars.

The share of discretionary spending in global GDP is estimated to rise from 20% to around 30% over the next 10 years. This implies that annual sales growth in the global mass-luxury market could be sustained at rates of 10-15% over the coming decade, almost tripling the market to around 30 trillion dollars by 2020 (Oxford Analytica, 2011).

Within emerging markets, growth is likely to be even more rapid -- at around 20-25% annually. This would push up demand from around 2 trillion dollars today to 15 trillion dollars -- half the world market -- by 2020. Because the robust growth is likely to continue, the focus of luxury goods manufacturers will be shifted to emerging markets during the next two to three years (Xu, 2011).

#### 4.3.2 China

This section is primarily based on the interview with *Mr. Jyrki Sura, Project Coordinator at Saga Furs Oyj*, (16.2.2012) and includes researcher's comments as well as relevant remarks of other interviewees.

The key factor of bringing fur in general back onto the market after the downfall of the 90's was China. Nonetheless, back in the days, China was not such a significant player on the fur market. It all started about 15 years ago, when first Hong Kong fur brokers started buying skins for the Mainland China. Then, in the beginning of 2000s more and more Chinese buyers begun to enter the market and for past 10 years number of Chinese customers coming to the Saga Furs Auctions has reached up to 50% of all the regular international buyers. Nowadays, every auction, out of 700-800 regular customers at least 350-400 are Chinese.

Reason for such a strong demand from China is mainly a wholesale market. There are factories already built, ready to produce fur garments of any kind one can imagine. Many of these factories do not even have customers yet and their owners are eager to start the production, for which they need a high quality supply. Apparently, economies of scale and cheaper labour force allow for decreasing costs considerably and therefore Chinese brokers so far have plenty of interested buyers ready to pay good money for the superior quality Nordic Furs. *(As another interviewee, fur broker, Mr. Klaus Ribak noted, many Chinese buy Blue Fox skins by weight, not even caring much about the*

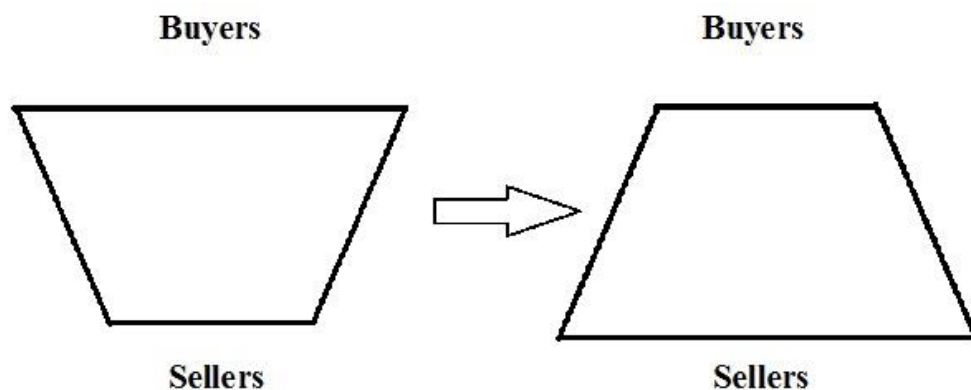


key parameters such as quality and size). As for retail sector of the fur market in China, even though it is represented with many enormous shopping malls selling only fur coats and other garments of any imaginable colours and shapes – it has no determining role in the Chinese fur demand, despite intensive luxury consumption in the country. There is no doubt that the current level of demand will change as soon as the fur garment making boom declines.

*Mr. Ribak* (K.-D. Ribak, Germany) – International Fur Broker with over 50 years of experience has kindly explained his vision of the fur market situation in China and many other aspects of the fur trade during another personal interview. Chinese fur market scheme is represented on the *Figure 6*, where current situation with few sellers and a lot of buyers (*left trapezium*) is gradually shifting towards right trapezium, when buyers become minority and market is full of merchants willing to sell the pelts they have got.

#### Chinese Fur Market

(Figure 6)



*Figure 6 illustrates ongoing shift of the China's fur market towards inevitable saturation.*

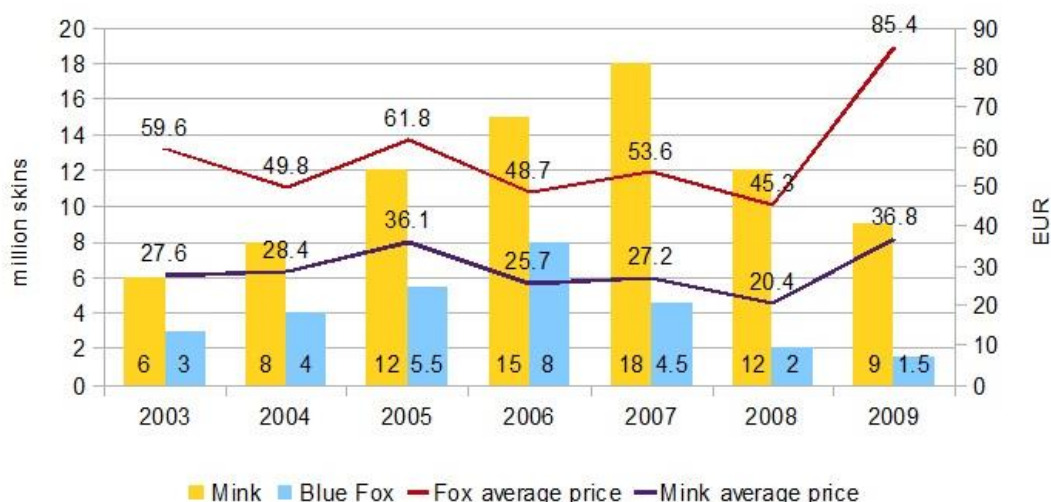
*Mr. Klaus Ribak, during personal interview (Mar. 2012)*

Chinese buyers come to Finland to buy not only mink skins, mostly used for the fur coats production, but fox as well, especially Blue Fox, which is extremely popular these days for trimmings on various items of cloth and accessories. Fox market has not always been thriving. Fox skin price doubled in the past two years, making fox farming a

lot more profitable than 5-7 years ago when European farmers had hard times and were barely able to reach breakeven.

What were the reasons for the Fox Market rise? First of all, fashion always plays a key part in this process. Fashion repeats itself in cycles and fox fur was in style again. Secondly, 7-9 years ago the Chinese started own production of fox and raccoon, taking notable share of the International Fox Fur Farming. Main traits of this process were high production volumes and high production costs, due to the expensiveness of the feed *(as another interviewee, fur broker and farming expert, Mr. Claus i J. Olsen said, in Europe animals are usually fed with sub-products of other industries e.g. cattle or fishing, which are not suitable for human use. In China practically all the sub-products are used by humans to such extents, that nothing worthwhile could be used to feed farm animals)*. Meanwhile, the feed is crucial in the fur farming more than in any other domestic animal farming as it naturally and directly impacts the quality of fur, which eventually is a commercial good and valued for the quality at first place. Striving to obtain quality skins from the farmed foxes, Chinese farmers had to import feed, which made production inefficient. Besides, by quality Chinese skins could hardly be compared with Nordic ones and therefore Chinese had to cut down almost all fox production in the country *(Figure 7)*, which made it possible for Finnish Fox farmers to regain their market share. At the moment 80% of fox is bred in Finland. Other important fox producers are Poland and Norway, skins from these countries are sold under Saga brand through the Saga Furs auctions.

**Mink and Blue Fox production in China with price dynamics. 2003 – 2009**  
(Figure 7)



*China's fur production is declining since 2007, but increased demand combined with lesser supply boosted the prices.*

*Based on Saga Furs materials*

Since production of fox in China declined and nearly faded away, Chinese demand for the fox skins has still been growing and this situation created the current upturn of the Fox Market. *(Similar kind of supply vacuum appeared to be on the Russian Market from 1990's up to this day, after Soviet Union collapsed and buried Russian fur industry under its shatters. The industry was practically destroyed, but strong demand for the fur garments remained on its place, backed up by climate and long fur wearing traditions, what probably resulted on the Chinese fur production upturn – researcher's remark).*

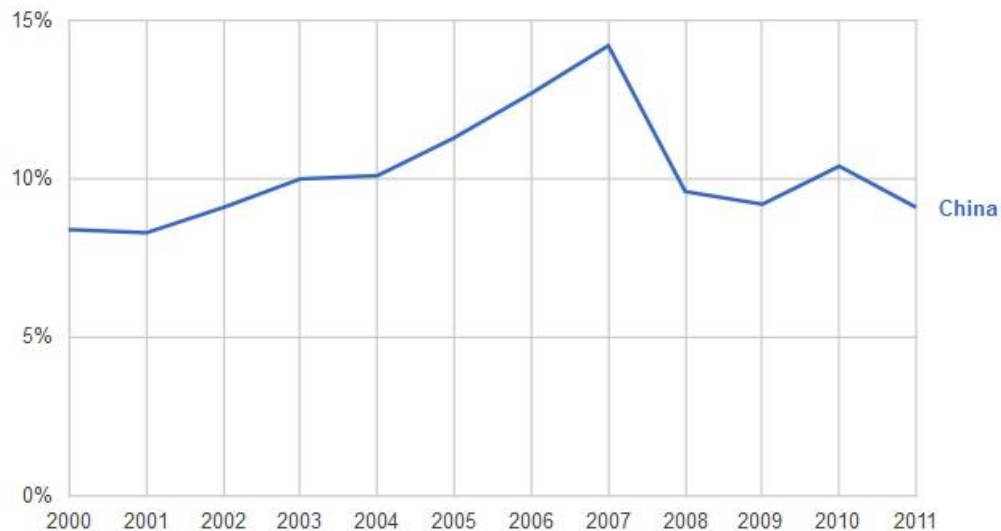
#### 4.3.2.1 Growth of the Chinese economy

Chinese economy is one of the most dynamically developing in the world. With 13.4% of population living below poverty line (taking into consideration lately introduced poverty line at RMB 2300 or approximately US \$363) and 6.5% unemployment rate its GDP in 2011 was estimated at USD 11.44 trillion (purchasing power parity) or USD 8 500 per capita, as stated in the CIA World Factbook (2012).

*Figure 8* illustrates China's GDP growth dynamics from the year 2000 until recent past. The growth tempo reached its peak of 14% in 2007 and since the world financial crisis still had relatively slight effect on Chinese economy in comparison to the US, Europe and most of the other countries, GDP continued to grow, but the growth had slowed down and fell to 9% in 2011, which is about pre peak amount in beginning of 2000s.

### GDP growth in China

(Figure 8)



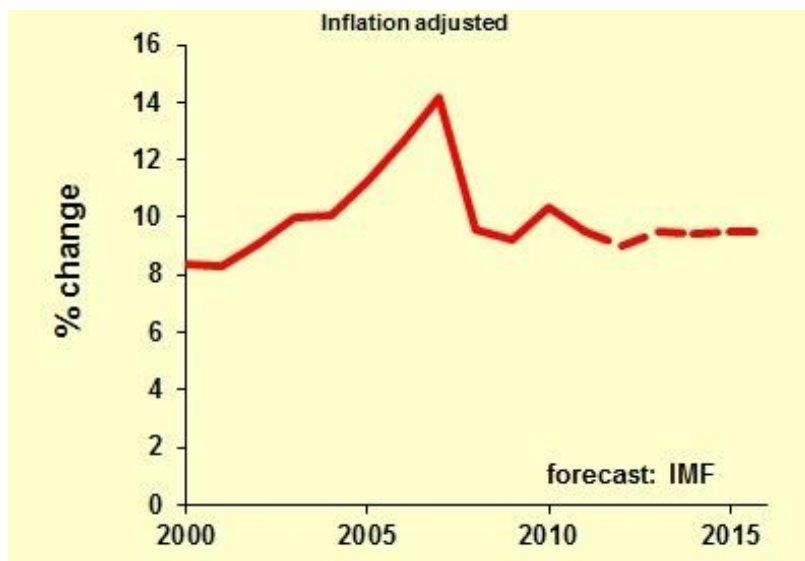
*Figure 8 illustrates dynamics of the GDP growth in China from 2000 to 2011.*

World Bank, [www.worldbank.org](http://www.worldbank.org) (accessed 7 September 2012)

The IMF (2012) forecasts 8.5 percent inflation-adjusted growth of Chinese economy in 2013. This number is half present more than in 2012, what probably means that the GDP growth rate is getting back to the upturn. Nevertheless, according to *Figure 9* China's Economic growth is going to remain stable at the mark of about 8 to 9 percent for the next 3 to 4 years.

### China Economic Growth Forecast

(Figure 9)



*IMF forecasts stabilization of China's economic growth at 8-9% until year 2015.*

IMF (International Monetary Fund) website, "World Economic Outlook Update. New Setbacks, Further Policy Actions Needed." <<http://www.imf.org/external/pubs/ft/weo/2012/update/02/index.htm>> (accessed 12 July 2012).

Growth momentum has slowed in various emerging market economies, notably Brazil, China, and India. This partly reflects a weaker external environment, but domestic demand has also decelerated sharply in response to capacity constraints and policy tightening over the past year (IMF, 2012).

Despite the fact that some analysts think that the Chinese economic miracle is running out of steam, pointing to China's low consumption-to-GDP ratio at 35% and a high investment-to-GDP ratio that exceeds 45%, raising concerns that the economy will eventually implode, others (Huang, 2011) consider domestic consumption seriously understated.

Mr. Huang (2011) points out that the statistics are based on obsolete, 30-year-old sample survey procedures which do not take full account of cash transactions that prevail in China and do not include fully non-cash provision of education or health services.

China's GDP is likely much higher than reported. A Morgan Stanley study mentioned by Huang (2011) estimates that in 2008 GDP was about 30% higher than official figures

and per capita consumption was as much as 80% higher. Other studies indicate that household income is understated by some 20%-30% and thus GDP is also much larger in reality. Overall, GDP might be 10%-15% higher; the true consumption-to-GDP ratio may be 40%-45% and investment 35%-40% (Huang, 2011).

Therefore, the researcher has concluded that China's growth model is not that vulnerable although dependable on external factors to some extent. China's economic growth prognosis is positive and favouring the worldwide fur industry development. Assuming total dependency of the international fur trade on Chinese market, mentioned by the vast majority of industry stakeholders interviewed during the project, it is possible to forecast that China's real economic development will let fur trade hold the present marks and probably develop further with the slightly slower tempo than before until fur is popular on the luxury market of this developing country.

#### *4.3.2.2 Luxury market in China*

The world's fastest-growing luxury product markets are in China, and the fur industry also benefits from this. Competition between business owners has stiffened compared to the previous level, as new fur businesses have opened up and continue to open up in mega shopping centers (Saga Furs, 2012).

China's luxury market looks likely to keep growing in all directions. There are more niche brands for sophisticated urbanites, more up-to-date offerings for people in and around second-tier cities and more interest from young people (Black, 2007).

Over the last decade, there has been a surge in China's consumer market and rapid gains in retail sales across other emerging markets, generating particularly buoyant growth in discretionary spending and luxury goods sales. For example, China's wine imports have increased from below 40 million dollars in 2003 to around 800 million dollars by 2010 (Oxford Analytica, 2011).

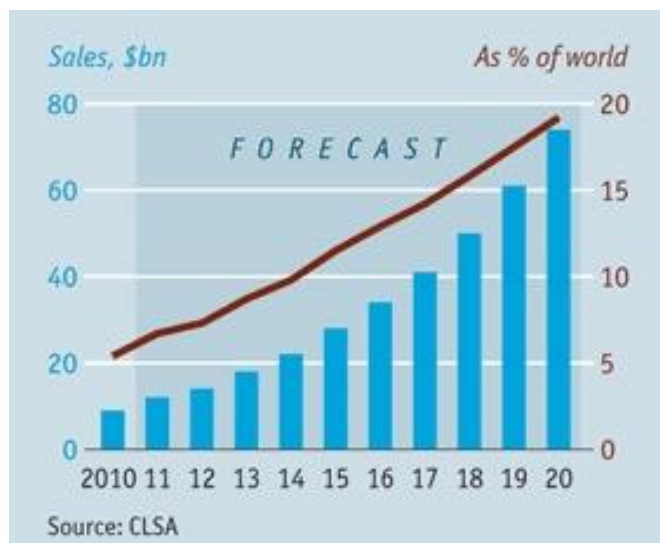
The Economist magazine is referring to a new report by CLSA (Credit Lyonnais Securities Asia), a broker which forecasts that overall consumption in China will rise by 11%

annually over the next five years. Meanwhile, sales of luxury goods will grow more than twice as quickly, by 25% a year.

China is already the largest market for Louis Vuitton, accounting for 15% of its global sales. The Economist (Feb. 2011) quotes Aaron Fischer, the CLSA report's author forecasting that by 2020 China's domestic luxury market will account for 19% of global demand for luxuries (*Figure 10*).

### China's luxury-goods market forecast

(Figure 10)



*According to CLSA, sales of luxury goods in China will grow by 25% a year.*

*CLSA in The Economist, "China's Luxury boom. The Middle Blingdom. Sales of costly trifles are even better than you think." The Economist 17 Feb. 2011 (accessed 19 August 2012)*

It is expected that luxury goods sales in China will see 25-percent year-on-year growth in 2012, to \$17 billion, while Japan will see a decline of 5 percent, partly because of the 2011 earthquake, according to Bain & Company's latest report, mentioned by Xu (2011). If this happens China will replace Japan as the world's second-largest luxury goods market this year, behind the United States.

Xu (2011) also notes that in contrast, the nation still has about 150 million people living in poverty, according to the United Nations' standard that counts people who live on less than one dollar per person per day. China's population of people meeting that standard is the second-largest in the world, behind India.

As stated in *The Economist* (Feb. 2011), sales of jewellery in Hong Kong rose by 29% in the year to December 2010; sales of high-end footwear and clothing shot up by 31%. Richemont, the world's biggest jeweller, registered a 57% increase in Asian sales in the fourth quarter. Hermès, a maker of fancy accessories, saw its sales in Asia climb by 45%. Burberry China was up by 30%; LVMH Asia soared by 30% outside Japan.

#### *4.3.2.3 Middle class in China*

In some ways the Chinese market is much like everywhere else. The same brands as everywhere else are popular; however, there are substantial differences. According to *The Economist* (2011), the average Chinese millionaire is only 39, which is 15 years younger than the average elsewhere and average age of China's luxury shoppers is 20 to 25 years younger than such shoppers in the West (Xu, 2011).

The stereotypical Chinese luxury shopper is a middle-age official who saunters in with a sack of cash and buys fistfuls of watches. But luxury shoppers are also educated, young, white-collar workers who save to splurge (Black, 2007).

Prosperous Chinese are less shy about flaunting their wealth than people in other countries. On the contrary, many believe they must show off to be taken seriously. Whereas the market for luxury goods in other countries is typically dominated by women, in China the men fill the tills with nearly equal abandon. They buy both for themselves and for other men, since gifts lubricate business in China. They are often willing to pay a large premium over the list price for desired items—many believe, for some reason, that the more something costs, the better it is (*The Economist*, 2011).

Chinese consumers also like to shop abroad. CLSA estimates that 55% of the luxury goods bought by Chinese people are bought outside mainland China (*The Economist*, 2011). Including luxury goods Chinese people buy outside China, CLSA predicts the nation's share of the global luxury market will triple, to 44%, by 2020.

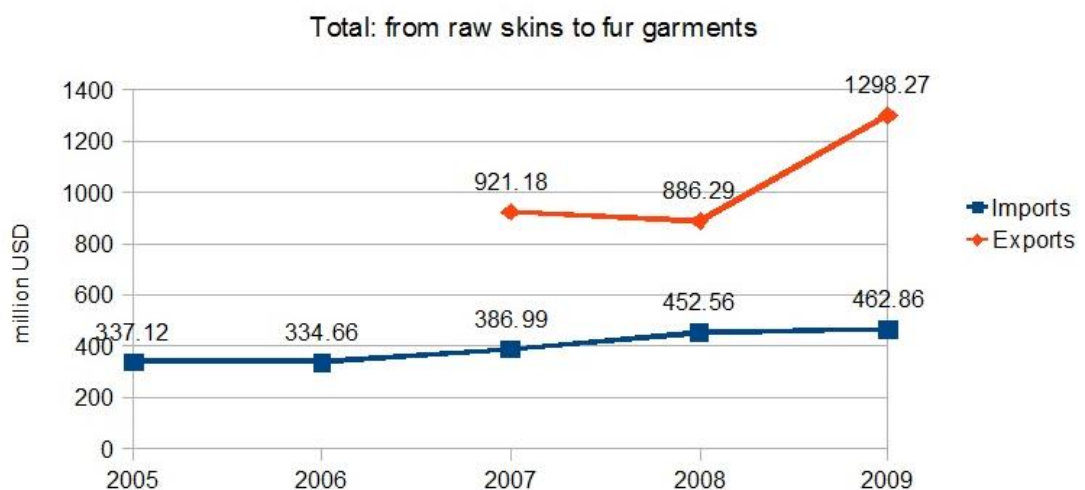


#### 4.3.2.4 China as a fur producer

With only a decade of development, Chinese Fur Processing Industry became the largest in the world. According to European industry sources, 80 percent of world's pelts are processed and manufactured in China. As mentioned before, China is the major buyer at most worldwide fur pelt auctions. In 2009, China's fur apparel exports reached USD 998 million, accounting for 77 percent of China's total fur product exports. China's fur manufacturing is clearly more developed than Chinese fur farming. Half of the fur products "Made in China" for export to overseas are using foreign fur materials (Petry, Liting, 2010).

From January to December 2009, China's fur product total exports by value reached USD 1.3 billion, increasing 46.5 percent compared to 2008 (*Figure 11*).

**China's Fur Production Imports and Exports, 2005 – 2009** (Figure 11)



*In 2009 China's fur exports exceeded imports almost 3 times.*

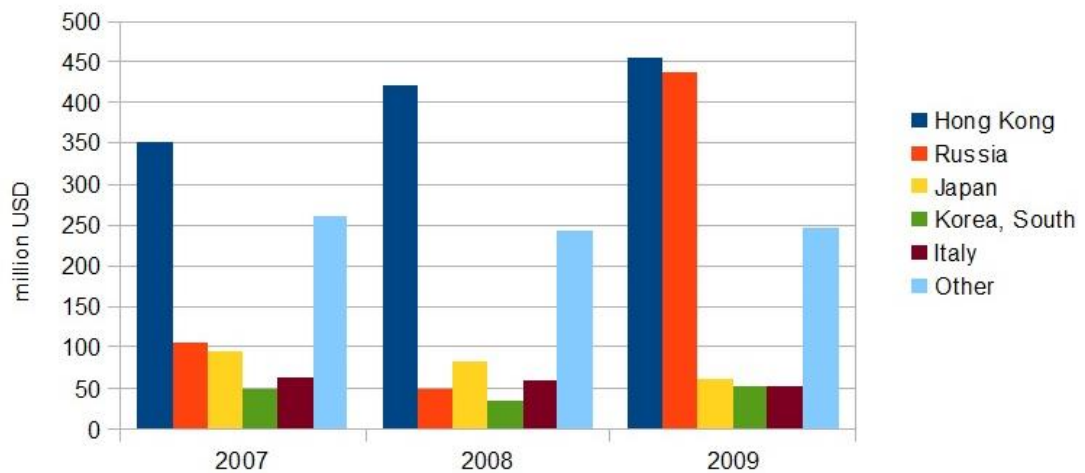
Based on Petry, Liting (2010)

Hong Kong and Russia are the largest importers for Chinese fur products (*Figure 12*). While Hong Kong is a transshipment point, Russia is largely importing fur garments for internal sale. The relatively stable growth of fur exports to Hong Kong shows stability and maturity of the mainstream of international fur market. Petry and Liting (2010) consider Hong Kong as the world's fur trade and distribution center; about 70 percent of the world's fur materials are transshipped from Hong Kong to other countries. Pro-

cessed fur product exports through Hong Kong account for 70 – 80 percent of the world total, of which 30 percent are famous brands. The United States is Hong Kong's biggest export market for fur products, following by Japan, South Korea, Italy and Germany.

**China's Fur Product Exports by Country**

**(Figure 12)**



*Hong-Kong is the largest exporter of China's fur products.*

Based on Petry, Liting (2010)

As it can be seen from the *Figure 12*, Russia is the most important single buyer of Chinese fur products. In 2005, Russia's fur imports from China reached a record high of USD 1.7 billion. However, the number dropped to USD 233 million in the following year, down 86 percent (Petry, Liting, 2010) due to warmer winters, newly introduced non-tariff barriers and later - financial recession. Only by the year 2009 its share of imports reached USD 440 million.

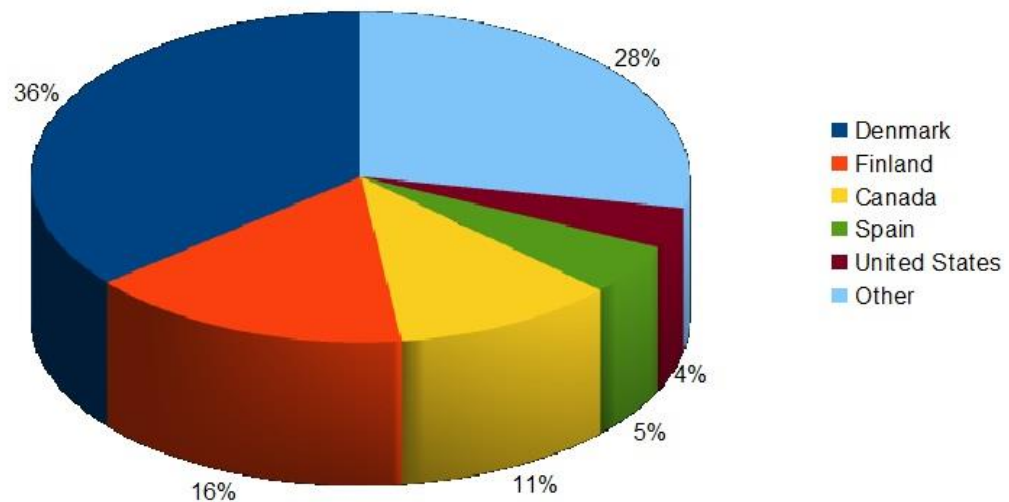
#### 4.3.2.5 China as a fur consumer

China's fur material imports have risen in the past ten years. In 2000, China's fur materials imports by value were US\$ 165 million and reached US\$ 463 million in 2010, up by 180 percent (*Figure 11*). Mink and fox pelts accounts for 89.2 percent of all fur pelt imports. Scandinavia is the world's largest producer of fur animals and is also the major origin of China's imports. Over half of the fur pelts are imported from Scandinavia

(see Figure 13). Demark is China's largest supplier of fur pelts, accounting for one third of China's fur pelt total imports (Petry, Liting, 2010).

### Suppliers of China's Fur Imports

(Figure 13)



*Majority of the raw skins is imported to China from Scandinavia.*

Based on Petry, Liting (2010)

Increasing imports indicate that China's processing capacity has been raised comparably; on the other side, Petry and Liting (2010) suggest that it also shows a connection to the boom of domestic fur farming. Domestic fur farmers lack the techniques, production, and quality needed by the international fur garment marketplace and imports have played a vital role in filling the gap.

#### 4.3.3 Russia

Russia is the world's largest fur market and one of the fastest-growing luxury markets alongside with China and India. 80 % of the Russian people wear fur during the cold winter months. Fur manufacturing sector of the country is characterized by fur hats production which is largest in the world (Larionov, 2012).

According to Russian nationwide business newspaper "Vedomosti" (May 2012), in 2009 Russian luxury market shrank by 5 percent to EUR 4.5 billion and the country had to

leave the top ten list of the luxury buying states replaced by Hong-Kong with its market of EUR 4.8 billion. After that luxury market in Russia has been growing for 5 percent annually; this is far behind world indicators. Growth rate accelerated in mid- 2011 and by 2012 Russian luxury market grew 12 percent, although this is still far from Europe and China.

It is difficult to evaluate luxury market in Russia since the major players do not disclose any numbers. Rough estimates of the annual luxury sales are around EUR 5-7 billion (Vedomosti, May 2012).

Due to cautious purchasing at auctions and excellent retail sales during the last period, Russian fur stocks were small in the 2011-2012 season. Despite the warm autumn of 2011, retail sales got off to a relatively good start. The demand in Russia has gotten a kick from the fur-favouring Western European fashion industry in particular; businesses in the industry in both Italy and France are doing significantly better than businesses in many other industries (Saga Furs, 2012).

Unlike the Blue Fox, equally popular among the buyers, Blue Frost Fox is primarily intended for Russian market – around 70-80% of the Blue Frost Fox skins go to Russia, what makes this segment of the fur market critically dependent on the Oil-based Russian economy. Thus, situation with the Blue Frost Fox follows the International Oil Market and Russian Ruble fluctuations (Sura, 2012).

Russian fur market heavily depends on the national currency and oil price fluctuations, affecting purchasing ability of businesses and merchants buying raw skins. Although its share is substantially smaller than China's, future prospects of the fur trade are associated with Russia. Besides, it is important to note that the substantial part of China's exported fur products go to Russia (*Figure 12*). Alongside with China, main countries supplying fur to Russia are Hong-Kong, Greece and Italy.

#### 4.4 Statistics

Total Mink pelts production worldwide accounted approximately 53.3 million skins in 2011. Major producers of the mink skins are Scandinavia (35%), China (25%), Western Europe (25%), North America (10%) and Russia (5%) (*see Figure 14*).

#### Mink Skins production, 2011

(Figure 14)



*Scandinavia, Western Europe and China are major mink producers.*

*Saga Furs materials*

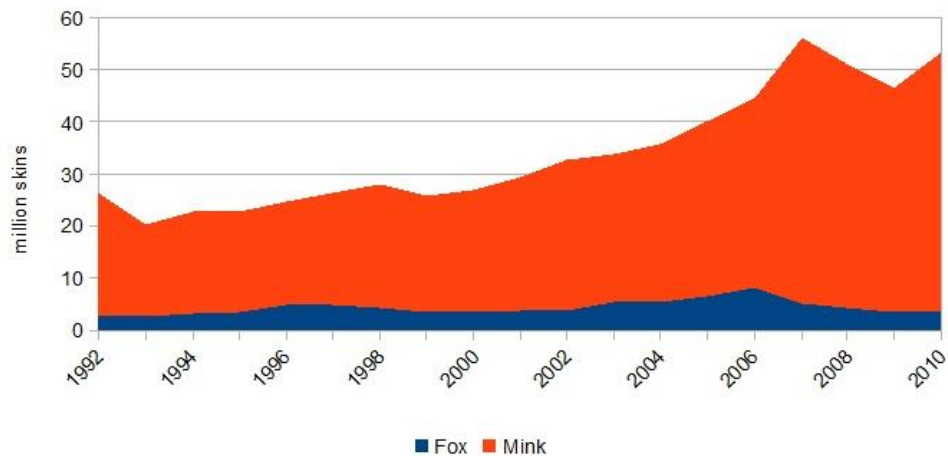
Total Fox pelts production worldwide accounted around 4 million skins in 2011. Major producers of the fox skins are Scandinavia (55%), China (38%), Poland and Baltics (3%) as well as Russia (3%) (*see Figure 15*).

**Fox Skins production, 2011****(Figure 15)**

*Scandinavian countries are the major fox skins producers in the world.*

*Saga Furs materials*

*Figure 16* indicates dynamics of the mink and fox skins production for the past twenty years. In spite of the overall positive trend of growth, the effect of the world financial crisis can be easily tracked down – note the downfall of the mink production after 2008. Nonetheless, present situation shows growth continuation in mink production and slight decline in fox production. Peak of the fox and mink production in 2006 and 2007 is explained by China's fur production increase followed by a drastic drop due to low quality of output (*see above, section 4.3.2*).

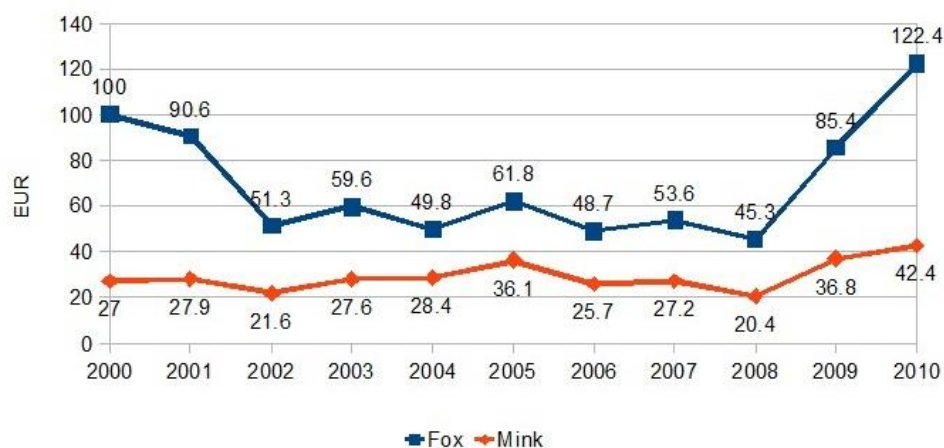
**Fox and Mink Skins production worldwide, 1992 – 2010****(Figure 16)**

*Mink production has been constantly growing with temporary fall in 2009. Fox production has almost returned to the mid-90's values.*

*Based on Saga Furs materials*

Recent Fox market upturn, as mentioned earlier, took place after most of the China's fox production shut down and existing considerable demand level boosted the prices.

Speaking of prices, it is worth looking at the mink and fox average price per skin dynamics (Figure 17). While mink price has been growing more or less steadily, with certain fluctuations, fox price decreased twice in 2002 and was able to beat the pre-decline number only after 2009. Currently the fox price is growing further and demand for fox fur (especially Blue Fox) is increasing.

**Mink and Fox average price dynamics, 2000 – 2010****(Figure 17)**

*While mink price has been growing since 2000, fox price started climbing upwards after 2008.*

*Based on Saga Furs materials*

Prices for both types of product reached lowest point in 2008 due to the world financial crisis and excessive production in China.

In order to find out whether there is a correlation between price and production volume, the researcher has matched production and price dynamics for the two major types of skins (*see Figures 18 & 19*).

### **Mink skins production worldwide and average price dynamics, 1992 – 2010 (Figure 18)**



*Until 2006 mink price grew together with production volumes.*

*Based on Saga Furs materials*

*Figure 18* illustrates that the mink price has mostly followed the production volume dynamics while supply met demand. In 2007 the production volume went through the roof supplying more than needed, reached its peak; apparently, market reacted with the price drop. Then price declined as well as production and reached its minimum in 2008 not without influence of global financial recession. From 2009 onwards the mink price has been intensely growing again, alongside the production and this growth is going on at the present moment.

As the *Figure 19* price and production volume dynamics for fox skins differs from the mink market. Price and production are also correlated, but show inverse relationship. While fox production volumes grew between 2002 and 2006, the price was low; in



2008 and further production shrank more than twice, what reflected on the price growth.

**Fox skins production worldwide and average price dynamics, 1992 – 2010 (Figure 19)**



*Peak of the fox production is characterized by lower prices.*

*Based on Saga Furs materials*

There are a lot of factors influencing the fur price: fashion, geopolitical situation, swine or bird flu, late flights from China (customers cannot get to an auction in time and price drops due to the demand absence). They all and many others play important role in fur pricing, not only the production volume, but these factors are more of a force majeure nature and would be rather difficult to track or forecast. Fur trade is almost like a living being by itself.

## 5 Conclusions

*So what are future prospects of the international fur trade?* Mr. Jyrki Sura, Project Coordinator at Saga Furs Oyj, on the main challenges and future prospects of the industry:

Current fur market situation is characterized by steady and steep price level growth. The fox skins price has started climbing up only two years ago, unlike mink price, which has already been increasing for past seven years. There are speculations that the price level tendency resembles a growing bubble, which cannot swell forever; especially the mink market is overheated for sure – the price is going to drop dramatically at some point, the question is when and to which level. Most likely, if the decrease happens, this should not be catastrophic for the market, as it is expected anyways – according to my estimations the mink price will probably get back to the levels of 2010-2011 season and stay there. Nevertheless, mink prices at February 2012 fur auction in Copenhagen were 15% higher than already expensive prices of December 2011 Saga Furs auction in Vantaa (Sura, 2012).

Changes usually occur with a crash on the fur market, we can expect it any time and it has happened many times in the history of the fur trade, but demand is still strong in China and as for the spring 2012, the situation must be relatively stable. Growing Chinese economy is the guarantee of the strong demand on the market. China changed the fur trade and old rules do not apply anymore, therefore Chinese market may play role of an airbag for the industry in case of the inevitable disaster. Should the drop happen, it will be a gradual decrease thanks to Chinese vast market (Sura, 2012).

Fur industry is experiencing a rise in spite of the world financial recession. Season by season trade houses sell everything, nearly 100% of stock with constantly rising prices. In March 2011 demand for the blue fox skins was so strong that the price has increased 50% above already acceptable for sellers' level. After that market was overheated and dramatic decrease took place, although price remained high. Next auction, in June 2011 price lowered more and reached realistic level. At the moment, the blue fox price has found proper altitude, although higher than experts thought. Trading houses predict that prices will stay high and change back to normal at the end of the

season (September). Nonetheless, the fox price is expected to stay at the same, relatively high level.

Among the main challenges fur industry has to deal with are dependence on the Chinese market as well as animal welfare – ethical and ecological issues are of high priority for the fur producers.

Challenges:

- Animal welfare – ethical and ecological issues.
- Market is pulled by China – when Chinese financial situation worsens, fur market goes down twice worse.

The current market trend cannot stay forever and change is always painful for the industry, nonetheless it is tend to overcome all the difficulties. There are new potential market areas, which could save the fur trade in case of sudden collapse of Chinese demand. Strengthening consumer demand on the Russian market, good demand from small companies in Europe are the most likely ones.

Future prospects of the industry and the fur trade look rather blurry. Nobody can say anything for sure. What seems obvious at the moment is that fashion drives strong demand for the fox which probably will grow even more. On the other hand, mink is going to stop growing at some point; it is just matter of time. Search for the new markets is always on and growing economies have the most considerable potential, although probably neither India nor Brazil would become new targets due to the hot climate.

USA and Europe show positive dynamics in general and the age of “crucifixion” of the fur industry is finally coming to an end. People start wearing fur even in Finland. Fur industry has developed totally new approach, stepped forward in many aspects, is able to listen and hear public opinions and change accordingly. Fur trade has deep understanding and involvement in ethics, ecology and sustainability concepts – and its message is heard in Europe.

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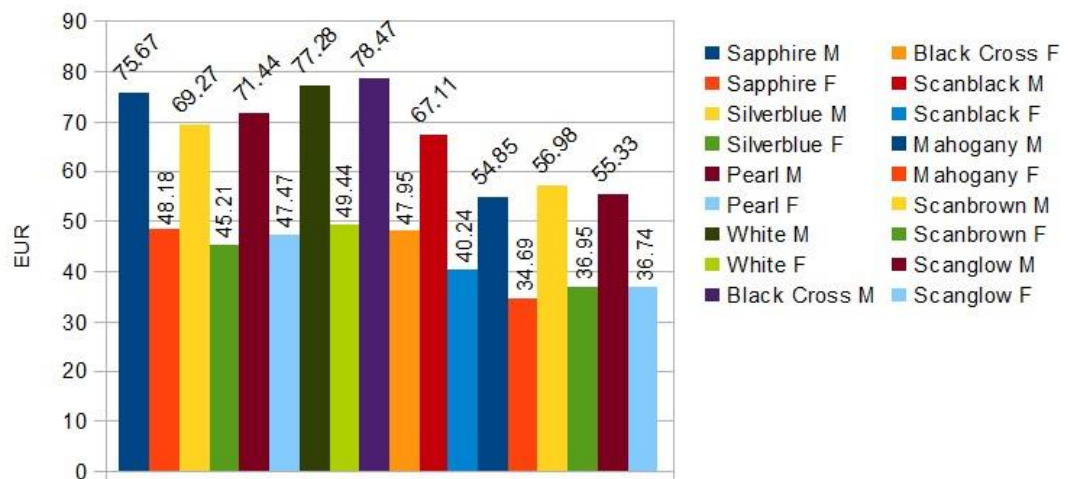
## **Interview Questions**

1. What is your opinion on the current fur market as well as industry as a whole?
2. What do you think are the main reasons for the current fur industry upturn? Whether this upturn is of a temporary nature or it's worth expecting further sales and prices growth (what types of fur?) and expansion to the new markets (which ones?).
3. What were the key factors of bringing fur back to the market after 90's?
4. What are the main challenges the industry and you as a stakeholder experience?
5. Could you name the main contemporary trends on the fur market?
6. What is your opinion on future prospects of the industry and fur trade for 5 – 10 following years?
7. How did the world financial crisis reflected on the industry?



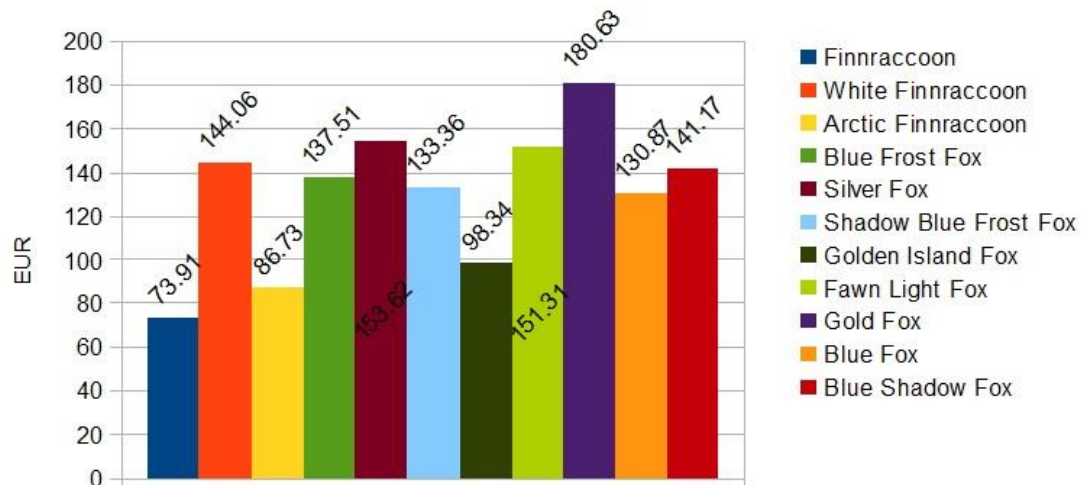
## Average Mink and Fox prices per raw skin, December 2011

Average mink prices per raw skin, December 2011



Based on Saga Furs materials

Average fox prices per raw skin, December 2011



Based on Saga Furs materials